

EURAZEO

Exposure Draft Investment Entities

ED / 2011 / 4

Comments

January 5, 2012

Mr Hans Hoogervorst
Chairman of the International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr Hoogervorst,

As the Board invited comments on the Exposure Draft Investment Entities (ED/2011/4), which was published on August 25 August 2011, please find below our remarks.

Eurazeo is one of the leading listed holding companies in Europe, with more than 4 billion euros in assets. Eurazeo is a long term shareholder whose goal is to transform the companies in which it holds a stake through an active involvement. Eurazeo involvement is dynamic and based on a vision of the companies' future which is shared with their management.

Eurazeo's structure is quite specific as the money being invested is that of the shareholders: Eurazeo has no debt but permanent capital it invests in the long term.

Eurazeo's criterion in investing is the potential for transformation that is detected in the business and that effectively leads to value creation. It means that Eurazeo contribution is not primarily financial but rather a management contribution, a strategic contribution or a contribution of its network as well over the long term.

Therefore, it's important that Eurazeo is not in the scope of this Exposure Draft as the proposed criteria to determine whether an entity is an investment entity or not, do not strictly match Eurazeo's profile:

- Eurazeo invests in the long term and sometime the very long term. Eurazeo manages its own assets and has no debt which means that it has no obligation to resale in order to repay debts. Eurazeo is not a fund and accordingly does not bear funds usual constraints, it has no determined exit strategy at the time of investing ;
- The performances of its investments are not evaluated on a fair value basis but on financial indicators (revenue, EBITDA, net debt...) which are relevant to manage the investments. A fair value of our assets is provided only as supplementary information.

Moreover, consolidating the investments enables us to provide meaningful information to our investors, who would lose a lot if ED Investment Entities would apply to us. This information enables our analysts and shareholders to assess the performance and sometimes more importantly the dynamic of our assets which is key to estimate the performance of Eurazeo.

Therefore, in order to protect the quality of the information provided to third parties, it seems important that the board clarifies the criteria for determining when an entity is an investment entity falling into the scope of this ED.

Our detailed comments on the ED are set out in the Appendix I to this letter.

If you have any questions concerning our comments, we would be pleased to discuss them.

Yours sincerely,

Philippe Audouin,

CFO – Member of the Executive Board

Appendix I

Detailed comments

Question 1

Do you agree that there is a class of entities, commonly thought of as an investment entity in nature, that should not consolidate controlled entities and instead measure them at fair value through profit or loss? Why or why not?

It may be appropriate for certain class of entities to obtain a consolidation exception and to measure their controlled entities at fair value. On the other hand, as expressed in our cover letter, such exception would:

- not correspond to the manner Eurazeo manages its asset;
- deteriorate the quality of the information provided by long term investors as Eurazeo.

Question 2

Do you agree that the criteria in this exposure draft are appropriate to identify entities that should be required to measure their investments in controlled entities at fair value through profit or loss? If not, what alternative criteria would you propose, and why are those criteria more appropriate?

As expressed in our cover letter, it is crucial that the information provided to the investors is consistent with the business model:

- The involvement in the operational decision within the investee must be taken into account to determine the scope of the consolidation exception. A full consolidation appears to be more relevant when the investor is actively involved in the investee management.
- The Appendix introduces the notion of “exit strategy” (B 3-a). The existence of a pre-defined exit strategy (which could include a deadline for resale) should be added in the other criteria of the paragraph 2. An entity which has no defined holding horizon for its investment (i.e. the capacity to hold investments on an indefinite horizon) should be clearly excluded from the scope of the proposed consolidation exception. Indeed, the fair value measurement would not suit to a fair representation of the performance of long term investors ;
- It should be emphasized that an investment company manages and evaluates its investment on a fair value basis. The fact the fair value is the primary measurement

attribute should be clearly specified in the Criteria and not only mentioned in the Appendix (B17). Some companies provide a Net Asset Value to external investors as supplementary information but this does not mean that it is the way these companies manage and evaluate their investment. In addition, the provided Net Asset Value is consistent with the recommendations of the International Private Equity Valuation Board (IPEV) but not fully with IFRS 13 requirements.

Question 3 and 4

- 3 *Should an entity still be eligible to qualify as an investment entity if it provides (or holds an investment in an entity that provides) services that relate to:*
- a. *its own investment activities?*
 - b. *the investment activities of entities other than the reporting entity?*
- Why or why not?*
- 4 a) *Should an entity with a single investor unrelated to the fund manager be eligible to qualify as an investment entity? Why or why not?*
- b) *If yes, please describe any structures/examples that in your view should meet this criterion and how you would propose to address the concerns raised by the Board in paragraph BC16*

We have no comment, as Eurazeo should not be eligible to qualify as an investment entity.

Question 5

Do you agree that investment entities that hold investment properties should be required to apply the fair value model in IAS 40, and do you agree that the measurement guidance otherwise proposed in the exposure draft need apply only to financial assets, as defined in IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement? Why or why not?

We have no comment, as Eurazeo should not be eligible to qualify as an investment entity.

Question 6

Do you agree that the parent of an investment entity that is not itself an investment entity should be required to consolidate all of its controlled entities including those it holds through subsidiaries that are investment entities? If not, why not and how would you propose to address the Board's concerns?

We have no comment, as Eurazeo should not be eligible to qualify as an investment entity.

Question 7 and 8

7 (a) Do you agree that it is appropriate to use this disclosure objective for investment entities rather than including additional specific disclosure requirements?

7 (b) Do you agree with the proposed application guidance on information that could satisfy the disclosure

8 Do you agree with applying the proposals prospectively and the related proposed transition requirements? If not, why not? What transition requirements would you propose instead and why?

We have no comment, as Eurazeo should not be eligible to qualify as an investment entity.

Question 9

(a) Do you agree that IAS 28 should be amended so that the mandatory measurement exemption would apply only to investment entities as defined in the exposure draft? If not, why not?

(b) As an alternative, would you agree with an amendment to IAS 28 that would make the measurement exemption mandatory for investment entities as defined in the exposure draft and voluntary for other venture capital organisations, mutual funds, unit trusts and similar entities, including investment-linked insurance funds? Why or why not?

As the option of IAS 28 and IAS 31 is currently used by entities which are not investment entities (and would be excluded from the scope of this ED), we are in favour of maintaining the option (alternative b).